

DRYDEN COMMUNITY SCHOOLS

DRYDEN, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
Report of Independent Accountants	I
Management's Discussion and Analysis	II – VIII
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Fiduciary Fund	
Statement of Fiduciary Net Assets	5
Notes to the Financial Statements	6 – 17
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	18
Other Supplemental Information	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	19
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	20
Combining Balance Sheet – Special Revenue Fund	21
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Special Revenue Fund	22
Combining Balance Sheet – Debt Retirement Fund	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Debt Retirement Fund	24
Individual Schedules of Revenues, Expenditures and Other Financing Uses:	
Schedule 1 - General Fund - Schedule of Revenues	25
Schedule 2 - General Fund - Schedule of Expenditures	26 – 29
Other Supplemental Schedules:	
Schedule 3 - Trust and Agency Fund – Schedule of Receipts and Disbursements – Student Activities	30 – 31
Schedule 4 - Schedule of Bond Principal and Interest Requirements	32 – 33
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 21, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Dryden Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dryden Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dryden Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dryden Community Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dryden Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf, P.C.

LEWIS & KNOPE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Dryden Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds, not the School District as a whole. The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The District has two kinds of fund:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Fiduciary funds – The District is the trustee or fiduciary agent for assets that belong to others in the student activities agency fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide Statement of Net Assets and Statement of Activities are reported using the full accrual basis of accounting. With this method, all of the District's assets, liabilities, current year revenues and expenditures are reported, regardless of when cash is received or paid. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Financial Position and Results of Operations:

The District' net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, is one indicator of whether its financial health is improving or deteriorating, respectively. The relationship between revenues and expenses indicates the District's operating results. To assess the District's overall health, it is important to consider additional non-financial factors such as the quality of educational services provided, the condition of school buildings and facilities, the safety of the schools, and other non-financial factors.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SUMMARY OF NET ASSETS:

The District's net assets totaled \$ 1,609,121 at June 30, 2005. Of this amount \$502,477 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the District's ability to use those net assets for day-to-day operations. The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

NET ASSETS SUMMARY

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets	\$2,503,152	\$2,813,115
Non-Current Assets	<u>7,779,607</u>	<u>8,033,933</u>
<u>TOTAL ASSETS</u>	<u>\$10,282,759</u>	<u>\$10,847,048</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,722,447	\$2,128,897
Long-Term Liabilities	<u>6,951,191</u>	<u>7,044,344</u>
Total Liabilities	\$8,673,638	\$9,173,241
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	735,273	842,689
Restricted - Debt Service	309,017	270,609
Restricted - Capital Projects	62,354	229,633
Unrestricted	<u>502,477</u>	<u>330,876</u>
Total Net Assets	<u>\$1,609,121</u>	<u>\$1,673,807</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$10,282,759</u>	<u>\$10,847,048</u>

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$463,981	\$435,663
Property Taxes Levied for Debt Service	411,115	381,962
State of Michigan Unrestricted Foundation Aid	4,738,920	4,687,433
Other General Revenues	<u>99,877</u>	<u>168,729</u>
Total General Revenues	\$5,713,893	\$5,673,787
<u>Operating Grants:</u>		
Federal	164,529	140,510
State of Michigan	205,038	165,937
Other Operating Grants	<u>9,258</u>	<u>0</u>
Total Operating Grants	\$378,825	\$306,447
<u>Charges for Services:</u>		
Food Service	134,960	145,148
Athletics	39,811	37,923
Other Charges for Services	<u>92,097</u>	<u>36,320</u>
Total Charges for Services	\$266,868	\$219,391
Total Revenues	\$6,359,586	\$6,199,625
<u>EXPENSES</u>		
Instruction & Instructional Support	3,412,494	3,524,955
Support Services	1,969,910	1,337,587
Community Services	24,890	19,119
Food Service	215,427	196,476
Athletics	174,469	139,313
Interest on Long-Term Debt	305,703	340,583
Depreciation	<u>269,486</u>	<u>359,860</u>
Total Expenses	\$6,372,379	\$5,917,893
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(\$12,793)	\$281,732
<u>BEGINNING NET ASSETS - AS RESTATED</u>	<u>1,621,914</u>	<u>1,392,075</u>
<u>ENDING NET ASSETS</u>	<u><u>\$1,609,121</u></u>	<u><u>\$1,673,807</u></u>

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets decreased by \$12,793 to a total of \$1,609,121. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$55,523 during the year due to depreciation and principal payments on related debt exceeding purchases of new capital assets. The districts Unrestricted Net Assets increased by \$171,601 during the year and the restricted portion of the net assets decreased by \$128,871. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$12,793. The district's total revenues increased by \$159,961 or 3% over the prior year. The major change was the general fund increase in revenues as discussed below. Expenditures increased by \$454,486 or 8% over last year. This increase was due primarily to salaries and fringe benefit increases in all funds. There were also increases in non depreciable expenditures such as text books, athletic supplies and technology supplies.

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The General Fund and the 2002 Debt Retirement Fund are the only major funds. Funds reported as "Other Governmental Funds" in the fund financial statements include the 1974 and 1978 Debt Retirement Funds, the 2002 Capital Projects Fund, Food Service and Athletics Funds.

General Fund

The district's general fund is the chief operating fund of the district. Fund balance for the general fund increased by \$105,085. Revenues for the year increased by \$174,538 primarily from increases in state aid, federal special education grants, and a prior year special education consortium adjustment. Expenditures and other financing uses increased by \$334,642 due primarily to increases in salaries and fringe benefits. The major source of general fund revenues is state aid and taxes with 94% of general fund operating revenue coming from these. Salaries and benefits amount to nearly 84% of the district's operating expenses.

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy.

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Dryden Community Schools foundation allowance was \$6,700 per student for the 2004-2005 school year. This increased over the 2003-2004 foundation allowance of \$6,640.

3. Student Enrollment:

The District's student enrollment for the fall count of 2004-2005 was 786 students. A decrease of 4 students from the prior year.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$469,215. An increase of \$26,077 from the prior year.

2002 Debt Retirement Fund

The districts debt retirement fund balance increased by \$38,082. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$378,105 in paying the required interest and principal payments of the school's bonded debt. The majority of the funds revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2003-2004, the District's debt millage levy was 2.24 mills that generated revenue of \$411,115. An increase of \$29,153 from the prior year.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS:

The District's budgets are prepared according to the Uniform Budget Act of the State of Michigan law which requires the Board of Education to approve the initial budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The initial budget is based on facts and assumptions known at the time of the initial budget preparation. It is expected that there will be changes between the initial budget and subsequent budgets, as many factors are not known at the time of adoption of the initial budget. Some of these factors include enrollment figures and resultant staffing requirements, staffing changes that take place during the year, state school aid adjustments, grant allocations, and other unforeseen items. As a matter of practice, the District amends its budget two times during the fiscal year to adjust for these changes.

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original	Variance Actual
				& Final Budget %	& Final Budget %
Revenue	\$5,398,371	\$5,638,301	\$5,684,014	4.44%	0.81
Expenditures	5,450,157	5,618,927	5,578,929	3.10%	0.71
<u>TOTAL</u>	<u>(\$51,786)</u>	<u>\$19,374</u>	<u>\$105,085</u>		

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

ANALYSIS OF BUDGETS:

Original Budget vs. Final Budget

Revenues

Significant variation between original and final budget were due to increased enrollment of 16 students from the original projections in June of 2004 and the actual September 2004 enrollment count. The district also saw an increase in the foundation allowance from our June 2004 projections. The original budget included foundation funding of \$6,650 per student, while the actual foundation ended up at \$6,700 per student. These two items amounted to a \$122,131 increase in budgeted revenues.

Expenditures

Significant variation between original and final budgets were due to a number of factors. The most significant were increased budget allocations for new high school text books, an increase in electric and natural gas rates, and additional expenses for the high school library flood project.

Actual Results vs. Final Budget

There were no significant variances between actual results and final budget for both revenue and expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>Governmental Activities:</u>				
General Obligation Bonds	\$7,174,334	\$0	\$130,000	\$7,044,334
Bus Note Payable	10,000	0	10,000	0
Capital Lease Payable	6,900	0	6,900	0
Severance Package Payable	78,084	0	67,984	10,100
Compensated Absences	64,904	134	2,776	62,262
<u>Total Governmental Activities</u>	<u>\$7,334,222</u>	<u>\$134</u>	<u>\$217,660</u>	<u>\$7,116,696</u>

Repayment of debt decreased the District's long-term principal obligations and, thereby increased the net assets of the District. The District repaid \$217,526 of long-term debt during the year ended June 30, 2005.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Capital Assets

The district's net investment in capital assets decreased by \$202,434 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$10,639,269	\$181,696	\$13,059	\$10,807,906
Less: Accumulated Depreciation	(2,657,228)	(384,130)	(13,059)	(3,028,299)
<u>Net Investment Capital Outlay</u>	<u>\$7,982,041</u>	<u>(\$202,434)</u>	<u>\$0</u>	<u>\$7,779,607</u>

Significant additions were the purchase of technology equipment, playground equipment, and surveillance equipment for both buildings.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Amy Swantek, Accountant, Dryden Community Schools, 3866 Rochester Road, Dryden, Michigan 42428 or by telephone at (810) 796-9534.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$747,515	\$1,421,191
Investments	790,495	423,387
Deposits	9,656	9,657
Accounts Receivable	305	34,884
Property Taxes Receivable	36,062	41,296
Due from Other Governmental Units	917,200	877,918
Prepaid Expenses	1,919	4,782
Total Current Assets	\$2,503,152	\$2,813,115
<u>NON-CURRENT ASSETS</u>		
Capital Assets	10,807,906	10,795,928
Less: Accumulated Depreciation	(3,028,299)	(2,761,995)
Total Noncurrent Assets	\$7,779,607	\$8,033,933
<u>TOTAL ASSETS</u>	\$10,282,759	\$10,847,048
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	66,134	43,488
Contracts Payable	0	192,371
State Anticipation Note Payable	993,000	1,150,000
Due to Other Governmental Units	41,198	27,794
Accrued Expenses	137,961	125,665
Salaries Payable	317,071	297,699
Deferred Revenue	1,578	1,992
Current Portion of Long-Term Obligations	165,505	289,888
Total Current Liabilities	\$1,722,447	\$2,128,897
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	6,951,191	7,044,344
<u>TOTAL LIABILITIES</u>	\$8,673,638	\$9,173,241
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	735,273	842,689
Restricted for:		
Debt Service	309,017	270,609
Capital Projects	62,354	229,633
Unrestricted	502,477	330,876
<u>TOTAL NET ASSETS</u>	\$1,609,121	\$1,673,807

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF ACTIVITIES
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004	
	Expenses	Charges For Services	Operating Grants and Contributions	Net (Expense) Revenue & Change in Net Assets	Net (Expense) Revenue & Change in Net Assets
Governmental Activities:					
Instruction	\$3,412,494	\$32,663	\$288,532	(\$3,091,299)	(\$3,246,913)
Support Services	1,969,910	45,767	15,415	(1,908,728)	(1,337,587)
Community Services	24,890	13,667	0	(11,223)	(14,979)
Food Service	215,427	134,960	74,878	(5,589)	9,257
Athletics	174,469	39,811	0	(134,658)	(101,390)
Interest - Long-Term Obligations	305,703	0	0	(305,703)	(340,583)
Depreciation - Unallocated	269,486	0	0	(269,486)	(359,860)
<u>TOTALS</u>	<u>\$6,372,379</u>	<u>\$266,868</u>	<u>\$378,825</u>	<u>(\$5,726,686)</u>	<u>(\$5,392,055)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes				875,096	817,625
State Aid				4,738,920	4,687,433
Investment Earnings				27,938	72,996
Miscellaneous				71,939	95,733
Total General Revenues and Transfers				<u>\$5,713,893</u>	<u>\$5,673,787</u>
Change in Net Assets				(\$12,793)	\$281,732
Net Assets - Beginning - As Restated				<u>1,621,914</u>	<u>1,392,075</u>
<u>Net Assets - Ending</u>				<u>\$1,609,121</u>	<u>\$1,673,807</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	2002 Debt Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$358,869	\$290,856	\$97,790	\$747,515
Investments	790,495	0	0	790,495
Deposits	9,656	0	0	9,656
Accounts Receivable	305	0	0	305
Property Taxes Receivable	31,086	3,549	1,427	36,062
Due from Other Funds	0	0	13,509	13,509
Due from Other Governmental Units	915,042	0	2,158	917,200
Prepaid Expenses	1,919	0	0	1,919
<u>TOTAL ASSETS</u>	<u>\$2,107,372</u>	<u>\$294,405</u>	<u>\$114,884</u>	<u>\$2,516,661</u>
<u>LIABILITIES</u>				
Accounts Payable	\$46,747	\$0	\$19,387	\$66,134
State Anticipation Note Payable	993,000	0	0	993,000
Due to Other Funds	13,509	0	0	13,509
Due to Other Governmental Units	40,198	0	1,000	41,198
Accrued Expenses	85,853	0	0	85,853
Salaries Payable	317,071	0	0	317,071
Deferred Revenue	32,664	3,549	1,427	37,640
Total Liabilities	\$1,529,042	\$3,549	\$21,814	\$1,554,405
<u>FUND BALANCES</u>				
Reserved For:				
Debt Retirement	0	290,856	18,161	309,017
Capital Projects	0	0	62,354	62,354
Unreserved:				
Undesignated, Reported In:				
General Fund	578,330	0	0	578,330
Special Revenue Funds	0	0	12,555	12,555
Total Fund Balances	<u>\$578,330</u>	<u>\$290,856</u>	<u>\$93,070</u>	<u>\$962,256</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$2,107,372</u>	<u>\$294,405</u>	<u>\$114,884</u>	<u>\$2,516,661</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:		\$962,256
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$10,829,039 and the accumulated depreciation is \$3,151,522		7,779,607
Accrued Interest on Long-Term Debt		(52,108)
Deferred revenue is included as a liability in governmental funds		36,062
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$7,044,334	
Severance Package Payable	10,100	
Compensated Absences	62,262	
Total Long-Term Liabilities		<u>(7,116,696)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$1,609,121</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	2002 Debt Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$560,945	\$416,187	\$189,741	\$1,166,873
State Sources	4,930,408	0	13,550	4,943,958
Federal Sources	103,201	0	61,328	164,529
Total Revenues	<u>\$5,594,554</u>	<u>\$416,187</u>	<u>\$264,619</u>	<u>\$6,275,360</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,342,761	0	0	3,342,761
Student Services	117,541	0	0	117,541
Instructional Support	122,165	0	0	122,165
General Administration	289,657	0	0	289,657
School Administration	398,163	0	0	398,163
Business Administration	45,153			45,153
Operation & Maintenance of Plant	585,348	0	0	585,348
Transportation	286,280	0	0	286,280
Other Support Services	44,698	0	0	44,698
Community Services	24,890	0	0	24,890
Special Revenue	0	0	384,162	384,162
Debt Service				
Redemption of Bonds	0	75,000	15,000	90,000
Interest	0	302,355	3,248	305,603
Dues and Fees	0	750	300	1,050
Capital Projects	0	0	171,096	171,096
Total Expenditures	<u>\$5,256,656</u>	<u>\$378,105</u>	<u>\$573,806</u>	<u>\$6,208,567</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$337,898	\$38,082	(\$309,187)	\$66,793
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(142,408)	0	142,408	0
Other Transfers	(90,405)	0	0	(90,405)
Total Other Financing Sources (Uses)	<u>(\$232,813)</u>	<u>\$0</u>	<u>\$142,408</u>	<u>(\$90,405)</u>
Net Change in Fund Balance	<u>\$105,085</u>	<u>\$38,082</u>	<u>(\$166,779)</u>	<u>(\$23,612)</u>
<u>FUND BALANCE - BEGINNING</u>	<u>473,245</u>	<u>252,774</u>	<u>259,849</u>	<u>985,868</u>
<u>FUND BALANCE - ENDING</u>	<u>\$578,330</u>	<u>\$290,856</u>	<u>\$93,070</u>	<u>\$962,256</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total net change in fund balances - governmental funds	(\$23,612)
--	------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(202,434)
--	-----------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	214,894
---	---------

Decrease in accrued compensated absences	2,642
--	-------

Revenue reported in the statement of activities last year that did not provide current financial resources and are not reported as revenue in the governmental funds	(5,233)
--	---------

Change in accrued interest on long-term liabilities	<u>950</u>
---	------------

<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$12,793)</u></u>
--	--------------------------

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

ASSETS

Cash and Cash Equivalents

\$51,425

TOTAL ASSETS

\$51,425

LIABILITIES

Due to Student Groups

\$51,425

TOTAL LIABILITIES

\$51,425

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1) REPORTING ENTITY

The School District is governed by an elected seven-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Dryden Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District's overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS (Continued)

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$2,500 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

The District did not adopt a budget for the 2002 Debt Retirement Fund for the current year. Therefore, no budget information is presented in the required supplementary information.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment Pool - MIMAX	\$ 790,495	0.0027	AAAm	100.00%

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$633,232 of the District's bank balance of \$1,042,250 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$51,425	\$ 798,940
Investments	<u>790,495</u>
<u>TOTAL</u>	<u>\$ 1,589,435</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 51,425
Cash – District Wide	747,515
Investments – District Wide	<u>790,495</u>
<u>TOTAL</u>	<u>\$ 1,589,435</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	<u>\$ 917,200</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had estimated claims of \$7,776 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$993,000 at 1.57% interest per annum on August 20, 2004, from JP Morgan Chase on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 19, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$137,502	\$0	\$0	\$137,502
Buildings and Improvements	8,931,327	30,987	0	8,962,314
Land Improvements	447,506	36,475	0	483,981
Equipment and Furniture	722,106	114,234	9,334	827,006
Vehicles	400,828	0	3,725	397,103
Totals at Historical Cost	<u>\$10,639,269</u>	<u>\$181,696</u>	<u>\$13,059</u>	<u>\$10,807,906</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(2,252,389)	(235,687)	0	(2,488,076)
Land Improvements	(12,366)	(18,243)	0	(30,609)
Equipment and Furniture	(177,864)	(92,140)	(9,334)	(260,670)
Vehicles	(214,609)	(38,060)	(3,725)	(248,944)
Total Accumulated Depreciation	<u>(\$2,657,228)</u>	<u>(\$384,130)</u>	<u>(\$13,059)</u>	<u>(\$3,028,299)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$7,982,041</u>	<u>(\$202,434)</u>	<u>\$0</u>	<u>\$7,779,607</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 69,733
Support Services	39,177
Food Service	1,091
Athletics	4,643
Unallocated	<u>269,486</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 384,130</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$55,455 and the District received a refund of \$18,012.

11) GENERAL LONG-TERM DEBT

A) General Obligation – School Building and Site Bonds

1998 Series

Dryden Community Schools has issued General Obligation Bonds dated June 1, 1998, in the amount of \$135,000, bearing interest at rates varying from 4.85% to 5.35% per annum. The proceeds are to be used for the purpose of erecting, furnishing, and equipping a bus garage, acquiring a school bus, and developing and improving the site. The balance of the bonds as of June 30, 2005 was \$50,000.

2002 Series

Dryden Community Schools has issued General Obligation Bonds dated November 1, 2002, in the amount of \$6,870,000, bearing interest at rates varying from 3.00% to 5.00% per annum. The proceeds are to be used for the purpose of erecting, furnishing, and equipping and addition or additions to, and partially remodeling, furnishing, and re-equipping technology for the elementary school and high school, acquiring buses, improving play fields at the high school, and developing and improving sites. The balance of the bonds as of June 30, 2005 was \$6,740,000.

B) 1999 Energy Conservation Improvement Bonds

Dryden Community Schools issued general obligation - limited tax bonds for the purpose of defraying the cost of energy conservation building improvements.

The bonds are dated June 24, 1999 in the aggregate amount of \$390,000 and require annual payments of principal and interest. The interest rates range from 4.45% to 4.85% per annum. The principal balance at June 30, 2005 was \$215,000.

C) Durant Resolution Package Bonds

Dryden Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$61,569 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$39,334. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

D) Bus Notes Payable

Dryden Community Schools was indebted to Tri-County Bank on bus note payable in the amount of \$53,297. The notes require annual principal payments per annum of \$10,000 including interest at 5.25% per annum. The note was paid in full during the year.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

11) GENERAL LONG-TERM DEBT (Continued)

E) Employee Severance Plan

During the year ended June 30, 2001, the District implemented an employee severance plan for early retirement of employees who met certain criteria. Six teachers elected the plan, exiting the district in June, 2001. Benefits shall be paid by Educator Preferred Corporation in 96 equal monthly installments to five teachers and 36 equal monthly installments to the remaining teacher electing the plan. The balance at June 30, 2005 was \$10,100.

F) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	SEVERANCE PACKAGE	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2006	\$2,525	\$162,980	\$313,993	\$479,498
June 30, 2007	2,525	183,121	308,154	493,800
June 30, 2008	2,525	213,271	301,660	517,456
June 30, 2009	2,525	198,426	293,709	494,660
June 30, 2010	0	208,589	286,536	495,125
June 30, 2011-2015	0	952,947	1,330,147	2,283,094
June 30, 2016-2020	0	1,185,000	1,113,284	2,298,284
June 30, 2021-2025	0	1,500,000	817,311	2,317,311
June 30, 2026-2030	0	1,740,000	431,444	2,171,444
June 30, 2031-2032	0	700,000	52,500	752,500
<u>TOTAL</u>	<u>\$10,100</u>	<u>\$7,044,334</u>	<u>\$5,248,738</u>	<u>\$12,303,172</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$319,452.

H) Changes in General Long-Term Debt

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
General Obligation Bonds	\$7,174,334	\$0	\$130,000	\$7,044,334	\$162,980
Bus Note Payable	10,000	0	10,000	0	0
Capital Lease Payable	6,900	0	6,900	0	0
Severance Package Payable	78,084	0	67,984	10,100	2,525
Compensated Absences	64,904	134	2,776	62,262	0
<u>Total Governmental Activities</u>	<u>\$7,334,222</u>	<u>\$134</u>	<u>\$217,660</u>	<u>\$7,116,696</u>	<u>\$165,505</u>

12) OPERATING LEASES

On July 13, 2004, the District leased equipment under a operating lease agreement with Xerox. The lease is for 60 months and requires monthly payments of \$1,195.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

13) FUND EQUITY RESTATEMENT

For the fiscal year ended June 30, 2005, net assets beginning of year has been restated due to a change in net fixed assets as follows:

Net Assets – July 1, 2004 - Before Restatement	\$ 1,673,807
Correction of Error (Overstatement) of Fixed Assets	<u>(51,893)</u>
<u>NET ASSETS – JULY 1, 2004 – AS RESTATED</u>	<u>\$ 1,621,914</u>

14) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

DUE TO	DUE FROM		
	Special Revenue	Capital Projects	TOTAL
General Fund	<u>\$11,533</u>	<u>\$1,976</u>	<u>\$13,509</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

15) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS TO	TRANSFERS FROM
	General Fund
Athletics Fund	\$123,860
Debt Retirement	<u>18,548</u>
<u>TOTAL</u>	<u>\$142,408</u>

These transfers were made to subsidize the cost of services for athletics and to cover principal and interest payment for debt.

16) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

16) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$482,492, \$420,642 and \$428,608, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

17) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

18) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

The high school is experiencing drain backups from run off water. The estimated cost to repair this is \$28,000. The cost will be incurred by the District in the 2005-2006 fiscal year. Insurance will not cover the cost to repair.

In January 2006, the federal regulation for arsenic amounts in the drinking water will change. In order to comply with the new regulation the District will be purchasing a new well. At this time the cost to complete the project is unknown.

19) SUBSEQUENT EVENTS

On August 19, 2005, the District borrowed \$771,000 at 2.92% per annum from JPMorgan Chase on a State Aid Anticipation Note. The note proceeds will be used to meet cash flow needs for the 2005-2006 fiscal year.

REQUIRED
SUPPLEMENTARY
INFORMATION

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$550,505	\$574,339	\$560,945	(\$13,394)
State Sources	4,742,733	4,874,730	4,930,408	55,678
Federal Sources	90,133	99,772	103,201	3,429
Total Revenues	<u>\$5,383,371</u>	<u>\$5,548,841</u>	<u>\$5,594,554</u>	<u>\$45,713</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,329,587	3,355,384	3,342,761	12,623
Student Services	119,576	118,993	117,541	1,452
Instructional Support	80,979	127,156	122,165	4,991
General Administration	294,125	299,424	289,657	9,767
School Administration	400,103	403,776	398,163	5,613
Business Administration	41,546	30,270	45,153	(14,883)
Operation & Maintenance of Plant	510,539	576,040	585,348	(9,308)
Transportation	265,303	292,362	286,280	6,082
Other Support Services	39,345	44,701	44,698	3
Community Services	23,514	26,294	24,890	1,404
Total Expenditures	<u>\$5,104,617</u>	<u>\$5,274,400</u>	<u>\$5,256,656</u>	<u>\$17,744</u>
Excess of Revenues Over Expenditures	<u>\$278,754</u>	<u>\$274,441</u>	<u>\$337,898</u>	<u>\$63,457</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(330,540)</u>	<u>(255,067)</u>	<u>(232,813)</u>	<u>22,254</u>
Net Change in Fund Balance	<u>(\$51,786)</u>	<u>\$19,374</u>	<u>\$105,085</u>	<u>\$85,711</u>
<u>FUND BALANCE - BEGINNING</u>			<u>473,245</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$578,330</u>	

OTHER SUPPLEMENTAL
INFORMATION

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005

	Special Revenue Fund	Debt Retirement Fund	2002 Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$10,397	\$18,161	\$69,232	\$97,790
Property Taxes Receivable	0	1,427	0	1,427
Due from Other Funds	11,533	0	1,976	13,509
Due from Other Governmental Units	2,158	0	0	2,158
<u>TOTAL ASSETS</u>	<u>\$24,088</u>	<u>\$19,588</u>	<u>\$71,208</u>	<u>\$114,884</u>
<u>LIABILITIES</u>				
Accounts Payable	\$11,533	\$0	\$7,854	\$19,387
Due to Other Governmental Units	0	0	1,000	1,000
Deferred Revenue	0	1,427	0	1,427
Total Liabilities	\$11,533	\$1,427	\$8,854	\$21,814
<u>FUND BALANCES</u>				
Reserved For:				
Debt Retirement	0	18,161	0	18,161
Capital Projects	0	0	62,354	62,354
Unreserved:				
Undesignated, Reported In:				
Special Revenue Funds	12,555	0	0	12,555
Total Fund Balances	\$12,555	\$18,161	\$62,354	\$93,070
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$24,088</u>	<u>\$19,588</u>	<u>\$71,208</u>	<u>\$114,884</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Fund	Debt Retirement Fund	2002 Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$185,598	\$326	\$3,817	\$189,741
State Sources	13,550	0	0	13,550
Federal Sources	61,328	0	0	61,328
Total Revenues	<u>\$260,476</u>	<u>\$326</u>	<u>\$3,817</u>	<u>\$264,619</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>123,860</u>	<u>18,548</u>	<u>0</u>	<u>142,408</u>
Total Revenues & Other Financing Sources	<u>\$384,336</u>	<u>\$18,874</u>	<u>\$3,817</u>	<u>\$407,027</u>
<u>EXPENDITURES</u>				
Special Revenue	384,162	0	0	384,162
Debt Service	0	18,548	0	18,548
Capital Projects				
Purchased Services	0	0	1,011	1,011
Other	0	0	200	200
Building Improvements	0	0	29,066	29,066
Equipment	0	0	140,819	140,819
Total Expenditures	<u>\$384,162</u>	<u>\$18,548</u>	<u>\$171,096</u>	<u>\$573,806</u>
Net Change in Fund Balance	<u>\$174</u>	<u>\$326</u>	<u>(\$167,279)</u>	<u>(\$166,779)</u>
<u>NET ASSETS - BEGINNING</u>	<u>12,381</u>	<u>17,835</u>	<u>229,633</u>	<u>259,849</u>
<u>NET ASSETS - ENDING</u>	<u>\$12,555</u>	<u>\$18,161</u>	<u>\$62,354</u>	<u>\$93,070</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SPECIAL REVENUE
COMBINING BALANCE SHEET
AS OF JUNE 30, 2005

	<u>Food Service</u>	<u>Athletic Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$10,397	\$0	\$10,397
Due from Other Funds	0	11,533	11,533
Due from Other Governmental Units	2,158	0	2,158
<u>TOTAL ASSETS</u>	<u>\$12,555</u>	<u>\$11,533</u>	<u>\$24,088</u>
<u>LIABILITIES</u>			
Accounts Payable	\$0	\$11,533	\$11,533
<u>FUND EQUITY</u>			
Unreserved and Undesignated	12,555	0	12,555
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$12,555</u>	<u>\$11,533</u>	<u>\$24,088</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Food Service</u>	<u>Athletic Activities</u>	<u>Total</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$134,960	\$0	\$134,960
Athletic Activities	0	39,811	39,811
Interest	560	0	560
Other Local Sources	4,112	6,155	10,267
Total Local Sources	<u>\$139,632</u>	<u>\$45,966</u>	<u>\$185,598</u>
<u>State Sources</u>			
State Reimbursements	13,550	0	13,550
<u>Federal Sources</u>			
Federal Reimbursements	43,869	0	43,869
Commodities	17,459	0	17,459
Total Federal Sources	<u>\$61,328</u>	<u>\$0</u>	<u>\$61,328</u>
Total Revenues	<u>\$214,510</u>	<u>\$45,966</u>	<u>\$260,476</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	123,860	123,860
Total Revenues and Other Financing Sources	<u>\$214,510</u>	<u>\$169,826</u>	<u>\$384,336</u>
<u>EXPENDITURES</u>			
Salaries - Professional	6,120	19,353	25,473
Salaries - Non-Professional	65,003	75,952	140,955
Insurance	424	0	424
Fica, Retirement, Etc.	15,905	21,271	37,176
Purchased Services	1,406	13,656	15,062
Supplies and Materials	119,516	13,160	132,676
Capital Outlay	4,715	20,454	25,169
Other	1,247	5,980	7,227
Total Expenditures	<u>\$214,336</u>	<u>\$169,826</u>	<u>\$384,162</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$174</u>	<u>\$0</u>	<u>\$174</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$12,381</u>	<u>\$0</u>	<u>12,381</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$12,555</u>	<u>\$0</u>	<u>\$12,555</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
COMBINING BALANCE SHEET
DEBT RETIREMENT FUND
AS OF JUNE 30, 2005

	1974 Debt Fund	1998 Debt Fund	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$18,161	\$0	\$18,161
Property Taxes Receivable	1,427	0	1,427
<u>TOTAL ASSETS</u>	<u>\$19,588</u>	<u>\$0</u>	<u>\$19,588</u>
<u>LIABILITIES</u>			
Deferred Revenue	\$1,427	\$0	\$1,427
<u>FUND BALANCES</u>			
Reserved For:			
Debt Retirement	18,161	0	18,161
<u>TOTAL FUND BALANCES</u>	<u>\$19,588</u>	<u>\$0</u>	<u>\$19,588</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	1974 Debt Fund	1998 Debt Fund	Total
<u>REVENUE</u>			
Earnings on Investments	\$326	\$0	\$326
<u>OTHER FINANCING SOURCES</u>			
Transfer from Other Funds	0	18,548	18,548
Total Revenues and Other Financing Sources	<u>\$326</u>	<u>\$18,548</u>	<u>\$18,874</u>
<u>EXPENDITURES</u>			
Redemption of Bonds	0	15,000	15,000
Interest	0	3,248	3,248
Dues and Fees	0	300	300
Total Expenditures	<u>\$0</u>	<u>\$18,548</u>	<u>\$18,548</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	\$326	\$0	\$326
<u>FUND BALANCE - BEGINNING OF YEAR</u>	17,835	0	17,835
<u>FUND BALANCE - END OF YEAR</u>	<u>\$18,161</u>	<u>\$0</u>	<u>\$18,161</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES FROM
Local Sources

Property Tax Levy	\$469,215
Earnings on Investments and Deposits	18,263
Tuition	32,663
Medicaid	9,258
Transportation	2,881
Other Local Revenues	28,665
Total Revenues from Local Sources	<u>\$560,945</u>

State Sources

State Aid - Foundation - Sec. 20	4,738,920
Durant	6,157
At Risk - Sec. 31A	36,518
Homeland Security	10,600
Special Education	138,105
Gifted and Talented Grant - Sec. 57.3	108
Total Revenues from State Sources	<u>\$4,930,408</u>

Federal Sources

Title I	27,980
Title II	22,531
Title V	476
IDEA Flowthrough	47,310
Medicaid - Outreach	2,570
Capacity Building	748
Learn and Serve Grant	1,586
Total Revenues from Federal Sources	<u>\$103,201</u>
Total Revenues	<u>\$5,594,554</u>

OTHER FINANCING SOURCES

Proceeds from Sale of Assets	170
Act 51	27,716
Transfer from ISD	15,000
Insurance Reimbursements	46,574
Total Other Financing Sources	<u>\$89,460</u>

TOTAL REVENUES AND OTHER
FINANCING SOURCES

\$5,684,014

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$913,029
Salaries - Non-Professional	27,296
Insurances	152,474
Fica, Retirement, Etc.	211,079
Other Benefits	20,000
Purchased Services	2,428
Supplies and Materials	31,352
Other	928
Total Elementary	<u>\$1,358,586</u>

Secondary

Salaries - Professional	983,044
Salaries - Non-Professional	19,263
Insurances	242,142
Fica, Retirement, Etc.	225,141
Other Benefits	27,059
Purchased Services	13,486
Supplies and Materials	53,474
Capital Outlay	205
Other	614
Total Secondary	<u>\$1,564,428</u>

Preschool

Salaries - Professional	14,727
Salaries - Non-Professional	610
Fica, Retirement, Etc.	3,452
Purchased Services	11
Supplies and Materials	1,067
Total Preschool	<u>\$19,867</u>

Total Basic Programs

\$2,942,881

ADDED NEEDSSpecial Education

Salaries - Professional	205,381
Salaries - Non-Professional	16,244
Insurances	39,055
Fica, Retirement, Etc.	49,380
Purchased Services	282
Supplies and Materials	1,086
Capital Outlay	862
Other	50
Total Special Education	<u>\$312,340</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)

ADDED NEEDS

Compensatory Education

Salaries - Professional	\$7,928
Salaries - Non-Professional	51,895
Fica, Retirement, Etc.	13,364
Other Benefits	13,529
Supplies and Materials	254
Other	570
Total Compensatory Education	<u>\$87,540</u>

<u>Total Added Needs</u>	<u>\$399,880</u>
--------------------------	------------------

<u>TOTAL INSTRUCTION</u>	\$3,342,761
--------------------------	-------------

SUPPORT SERVICES

Student Services

Salaries - Professional	63,720
Salaries - Non-Professional	5,590
Insurances	16,299
Fica, Retirement, Etc.	15,452
Other Benefits	13,529
Purchased Services	1,624
Supplies and Materials	1,327
Total Student Services	<u>\$117,541</u>

Instructional Support

Salaries - Professional	9,909
Salaries - Non-Professional	44,733
Fica, Retirement, Etc.	12,071
Other Benefits	13,529
Purchased Services	6,152
Supplies and Materials	33,134
Capital Outlay	194
Other	2,443
Total Instructional Support	<u>\$122,165</u>

General Administration

Salaries - Professional	76,502
Salaries - Non-Professional	53,301
Insurances	14,566
Fica, Retirement, Etc.	28,041
Other Benefits	4,000
Purchased Services	107,018
Supplies and Materials	1,866
Capital Outlay	130
Other	4,233
Total General Administration	<u>\$289,657</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)

School Administration

Salaries - Professional	\$154,899
Salaries - Non-Professional	101,846
Insurances	74,937
Fica, Retirement, Etc.	56,455
Purchased Services	5,552
Supplies and Materials	3,223
Other	1,251
Total School Administration	<u>\$398,163</u>

Business Office

Fica, Retirement, Etc.	8,999
Purchased Services	11,455
Other	24,699
Total Business Office	<u>\$45,153</u>

Operation and Maintenance

Salaries - Professional	23,058
Salaries - Non-Professional	162,748
Insurances	39,055
Fica, Retirement, Etc.	41,960
Purchased Services	103,759
Supplies and Materials	199,948
Capital Outlay	14,254
Other	566
Total Operation and Maintenance of Plant	<u>\$585,348</u>

Transportation

Salaries - Non-Professional	174,929
Insurances	13,653
Fica, Retirement, Etc.	39,111
Other Benefits	332
Purchased Services	14,287
Supplies and Materials	42,623
Other	1,345
Total Transportation	<u>\$286,280</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)
Other Support Services

Salaries - Professional	\$9,126
Salaries - Non-Professional	2,448
Fica, Retirement, Etc.	2,595
Purchased Services	30,071
Supplies and Materials	458
Total Other Support Services	<u>\$44,698</u>

TOTAL SUPPORT SERVICES

\$1,889,005

COMMUNITY SERVICES

Salaries - Professional	18,817
Fica, Retirement, Etc.	4,209
Supplies and Materials	1,864
Total Community Services	<u>\$24,890</u>

TOTAL EXPENDITURES

\$5,256,656

OTHER FINANCING USES

Transfers to Other Funds	142,408
Other Transfers	104,360
Payments and Interest	<u>75,505</u>

TOTAL OTHER FINANCING USES

\$322,273

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$5,578,929

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
TRUST AND AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Athletics - Booster Projects	\$295	\$6	\$0	\$301
Athletics - Busing	449	258	0	707
Athletics - Dues & Fees	0	1,965	1,965	0
Athletics Gate & Officials	0	24,250	24,250	0
Athletics - Pay to Participate	50	17,750	17,800	0
Baseball	79	0	0	79
Basketball	0	3,934	3,883	51
Junior High Basketball	0	777	774	3
Box Tops for Education - Elem.	1,717	2,282	304	3,695
Cardinal Creations	662	0	0	662
Cheerleading	360	12,864	12,459	765
Cheerleading - Junior High	198	4,851	4,636	413
Class of 2004	24	0	0	24
Class of 2005	737	748	1,485	0
Class of 2006	1,494	9,069	8,989	1,574
Class of 2007	183	1,088	0	1,271
Class of 2008	2,011	5,802	3,294	4,519
Class of 2010	24	219	243	0
Class of 2011	0	526	0	526
Color Me Green	393	0	0	393
Drama	539	2,013	2,256	296
Elementary - Miscellaneous	905	415	795	525
Elementary Student Council	771	972	1,219	524
Enrichment	165	0	0	165
Enrichment - Elementary	0	2,205	2,180	25
Football	0	934	100	834
Former Graduates	1,424	24	0	1,448
Four County - Hand on Lit.	75	0	0	75
Four County Grant - Hudson	0	822	570	252
Genesee ISD Project Tap	350	0	0	350
Girls Basketball	15	228	215	28
Golf	68	607	424	251
Graphic Arts	1,114	0	0	1,114
Industrial Arts Club	271	0	0	271
Interest	1,377	1,584	65	2,896
Junior High Environmental	137	123	38	222
Knights of Columbus - Elem.	1,043	0	768	275
Knights of Columbus - HS	405	859	257	1,007
Library Fund - Elementary	180	170	0	350
Library Fund - High School	1,994	1,078	402	2,670
Mass Media	4,462	7,316	9,792	1,986
Math/Science - High School	120	0	0	120
Meijer Rewards - Elem.	517	1,485	969	1,033
Meijer Rewards - High School	444	885	446	883

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN

TRUST AND AGENCY FUNDS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Miscellaneous	\$608	\$7,087	\$7,695	\$0
Music	708	4,834	4,573	969
National Honor Society	401	122	186	337
Pepsi Money - Elementary	63	0	0	63
Pepsi Money - High School	2,606	0	0	2,606
Pre-School Fundraiser	262	0	0	262
Project Graduation - Current	143	15,047	15,176	14
PTO - High School	1,120	8,207	6,631	2,696
Quiz Bowl	387	100	404	83
SADD	539	183	215	507
SchoolCash.com - Elementary	71	0	42	29
School Improvement - HS	1,330	0	0	1,330
Sixth Grade Trip	0	13,571	12,603	968
Ski Club - Junior High & HS	267	0	0	267
Student Council - High School	773	2,883	1,419	2,237
Student Council - Junior High	729	843	1,116	456
Target Account - Elementary	0	598	95	503
Target Rewards - High School	141	145	67	219
Tech. Lab	415	0	415	0
Tom Sterner Memorial Scholar.	1,282	0	500	782
Tom Sterner Volleyball	0	1,533	1,234	299
Track Invitationals	0	1,066	946	120
Track - Junior High	44	549	593	0
Varsity Soccer	409	2,117	1,387	1,139
Varsity Softball	0	3,725	1,739	1,986
Verizon - High School	345	74	315	104
Volleyball	1,915	4,332	5,715	532
Junior High Football	0	811	683	128
Junior High Volleyball	0	956	752	204
Wrestling	0	954	952	2
TOTAL STUDENT GROUPS	\$39,610	\$177,846	\$166,031	\$51,425

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

GENERAL OBLIGATION - 1998 SCHOOL BUILDING AND SITE BONDS

Date of Issue - June 1, 1998

Original amount of issue - \$135,000

	INTEREST RATE	PRINCIPAL AMOUNT	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	TOTAL
<u>PAYMENT DATE - MAY 1ST</u>					
2005-2006	4.85% - 5.30%	\$15,000	\$1,226	\$1,227	\$17,453
2006-2007	4.85% - 4.95%	15,000	863	862	16,725
2007-2008	4.95%	20,000	495	495	20,990
<u>TOTAL</u>		<u>\$50,000</u>	<u>\$2,584</u>	<u>\$2,584</u>	<u>\$55,168</u>

1999 ENERGY CONSERVATION IMPROVEMENT BONDS

Date of Issue - June 24, 1999

Original amount of issue - \$390,000

	INTEREST RATE	PRINCIPAL AMOUNT	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	TOTAL
<u>PAYMENT DATE - MAY 1ST</u>					
2005-2006	4.45% - 4.55%	\$40,000	\$5,046	\$5,046	50,092
2006-2007	4.55% - 4.65	40,000	4,136	4,136	48,272
2007-2008	4.65%	45,000	3,206	3,206	51,412
2008-2009	4.75%	45,000	2,160	2,160	49,320
2009-2010	4.85%	45,000	1,092	1,092	47,184
<u>TOTAL</u>		<u>\$215,000</u>	<u>\$15,640</u>	<u>\$15,640</u>	<u>\$246,280</u>

1998 DURANT RESOLUTION PACKAGE BONDS

Date of Issue - November 24, 1998

Original amount of issue - \$61,569

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$2,980	4.761353%	\$1,343	\$4,323
2007	3,121	4.761353%	1,202	4,323
2008	3,271	4.761353%	1,053	4,324
2009	3,426	4.761353%	897	4,323
2010	3,589	4.761353%	734	4,323
2011	14,881	4.761353%	5,523	20,404
2012	3,939	4.761353%	384	4,323
2013	4,127	4.761353%	196	4,323
<u>TOTAL</u>	<u>\$39,334</u>		<u>\$11,332</u>	<u>\$50,666</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

GENERAL OBLIGATION - 2002 SCHOOL BUILDING AND SITE BONDS

Date Authorized : November 1, 2002

Amount Authorized: \$6,870,000

<u>PAYMENT DATE - MAY 1ST</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>TOTAL</u>
2005-2006	3.000%	\$105,000	\$150,052	\$150,053	\$405,105
2006-2007	3.000%	125,000	148,478	148,477	421,955
2007-2008	3.250%	145,000	146,603	146,602	438,205
2008-2009	3.250%	150,000	144,246	144,246	438,492
2009-2010	3.500%	160,000	141,809	141,809	443,618
2010-2011	3.600%	170,000	139,009	139,009	448,018
2011-2012	3.700%	175,000	135,949	135,948	446,897
2012-2013	3.875%	185,000	132,711	132,711	450,422
2013-2014	4.000%	195,000	129,127	129,127	453,254
2014-2015	4.100%	205,000	125,226	125,227	455,453
2015-2016	4.200%	215,000	121,024	121,024	457,048
2016-2017	4.300%	225,000	116,509	116,509	458,018
2017-2018	4.375%	235,000	111,672	111,672	458,344
2018-2019	4.500%	250,000	106,531	106,531	463,062
2019-2020	4.550%	260,000	100,906	100,906	461,812
2020-2021	4.600%	270,000	94,991	94,991	459,982
2021-2022	4.650%	285,000	88,781	88,781	462,562
2022-2023	4.700%	300,000	82,155	82,155	464,310
2023-2024	4.750%	315,000	75,105	75,105	465,210
2024-2025	4.750%	330,000	67,623	67,624	465,247
2025-2026	4.750%	345,000	59,786	59,786	464,572
2026-2027	4.800%	345,000	51,592	51,593	448,185
2027-2028	4.875%	350,000	43,313	43,312	436,625
2028-2029	4.875%	350,000	34,781	34,781	419,562
2029-2030	5.000%	350,000	26,250	26,250	402,500
2030-2031	5.000%	350,000	17,500	17,500	385,000
2031-2032	5.000%	350,000	8,750	8,750	367,500
<u>TOTAL</u>		<u>\$6,740,000</u>	<u>\$2,600,479</u>	<u>\$2,600,479</u>	<u>\$11,940,958</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 21, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Dryden Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dryden Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the Dryden Community Schools' basic financial statements and have issued our report thereon dated July 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dryden Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dryden Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Dryden Community Schools, in a separate letter dated July 21, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 21, 2005

To the Board of Education of
Dryden Community Schools

In planning and performing our audit of the financial statements of Dryden Community Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Dryden Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Dryden Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Food Service

The District should consider a point of sale system for the lunch program.

3. Expense Reports

The Superintendent's expense report should be approved by the Treasurer before the check is cut.

4. Debt Retirement

The 1974 Debt Fund remaining cash could be transferred to the 2002 Debt fund. This does not require approval from the Michigan Department of Treasury.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Dryden Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.



Dryden Community Schools

Page 2

July 21, 2005

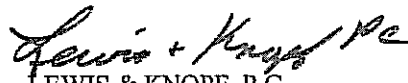
The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Dryden Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS